

KENYA BUDGET ANALYSIS: MERU COUNTY

1. ARE THERE REASONS GIVEN FOR CHOICES MY LEADERS MADE IN THE BUDGET?

This question asks whether the budget contains a narrative explanation that explains why the county made certain choices. Every budget must make choices about how to use limited amounts of money. There is no one right way to distribute funds, but good practice is to provide some explanation of priorities and the reasons for making choices. It is not good practice to simply provide tables with data without a good explanation. While the budget speech or statement that accompanies the budget may provide some information about county priorities, it is not a substitute for a detailed narrative within the budget documents that explains key tables and charts.

The Meru county budget that was approved in June did not have any budget notes, the final revised budget does show the initial figures and the changes made also did not have any notes to explain these changes.

2. WHAT ARE THE PRIORITY AREAS IN MY BUDGET?

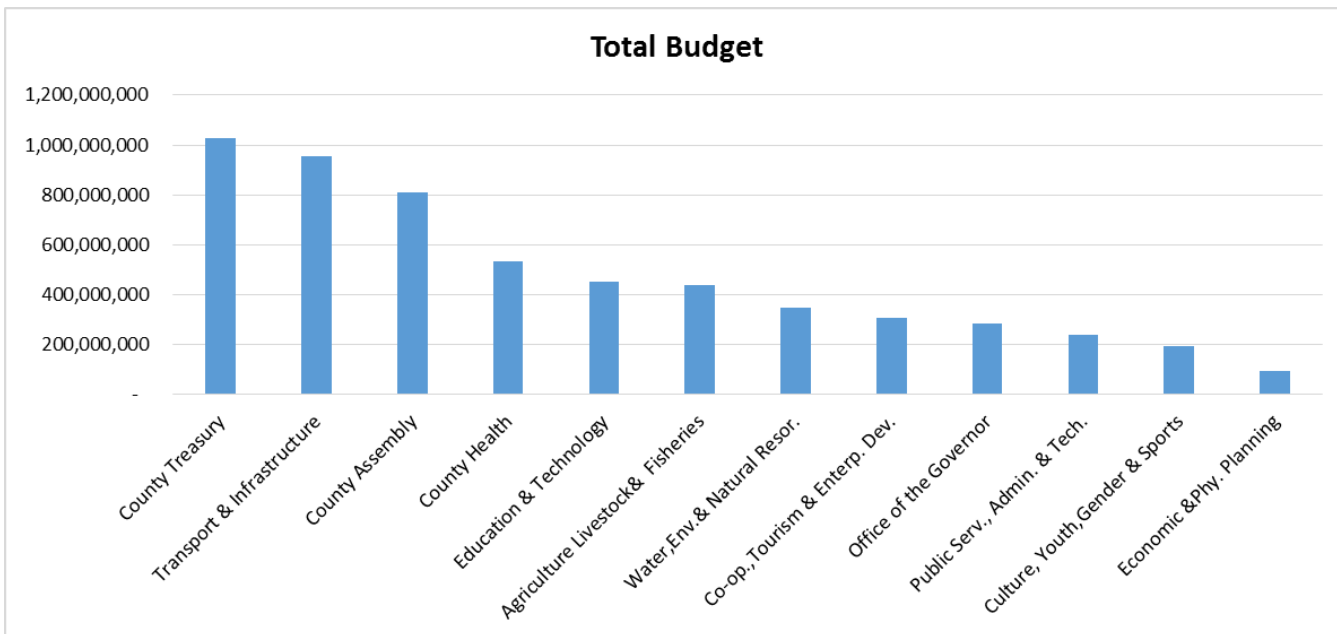
When we talk about priority areas, we generally mean the sectors that have received the highest allocations (most money). This is one way of understanding choices and relative priorities.

However, not all areas are equally expensive. For example, if one considers international benchmarking for different sectors, education is usually more expensive than health, health more expensive than agriculture, and agriculture more expensive than water. It does not follow that spending more on health than water means health is more of a priority than water.

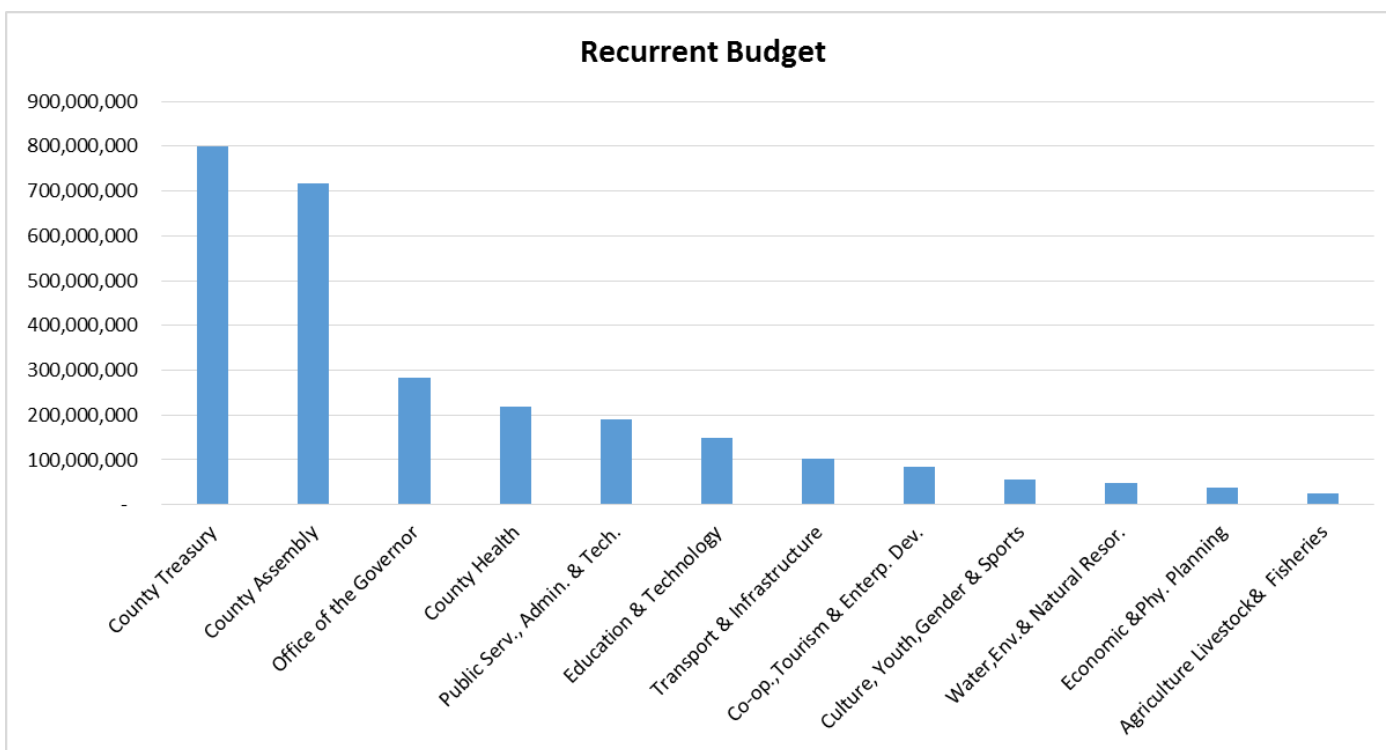
Priorities are also about changes over time in allocations. If a county receives an extra Ksh 100 between 2013/14 and 2014/15, how is that money used? Is that extra funding used for health or water? Is it used for other areas? This is also a measure of priority. A priority area can be identified by comparing the current budget to last year or to the budgets of similar counties.

The total revised budget for Meru County is Ksh 5.7 billion. The recurrent expenditure is Ksh 2.8 billion while the development budget takes up Ksh 2.9 billion or 51 percent of the total budget.

The County Treasury has the highest budgetary allocation with Ksh 1 billion, followed by the Transport and Infrastructure department. The County Assembly is third with Ksh 810 million. The top four departments, including health (Ksh 535 million), take up 58 percent of the total county budget.

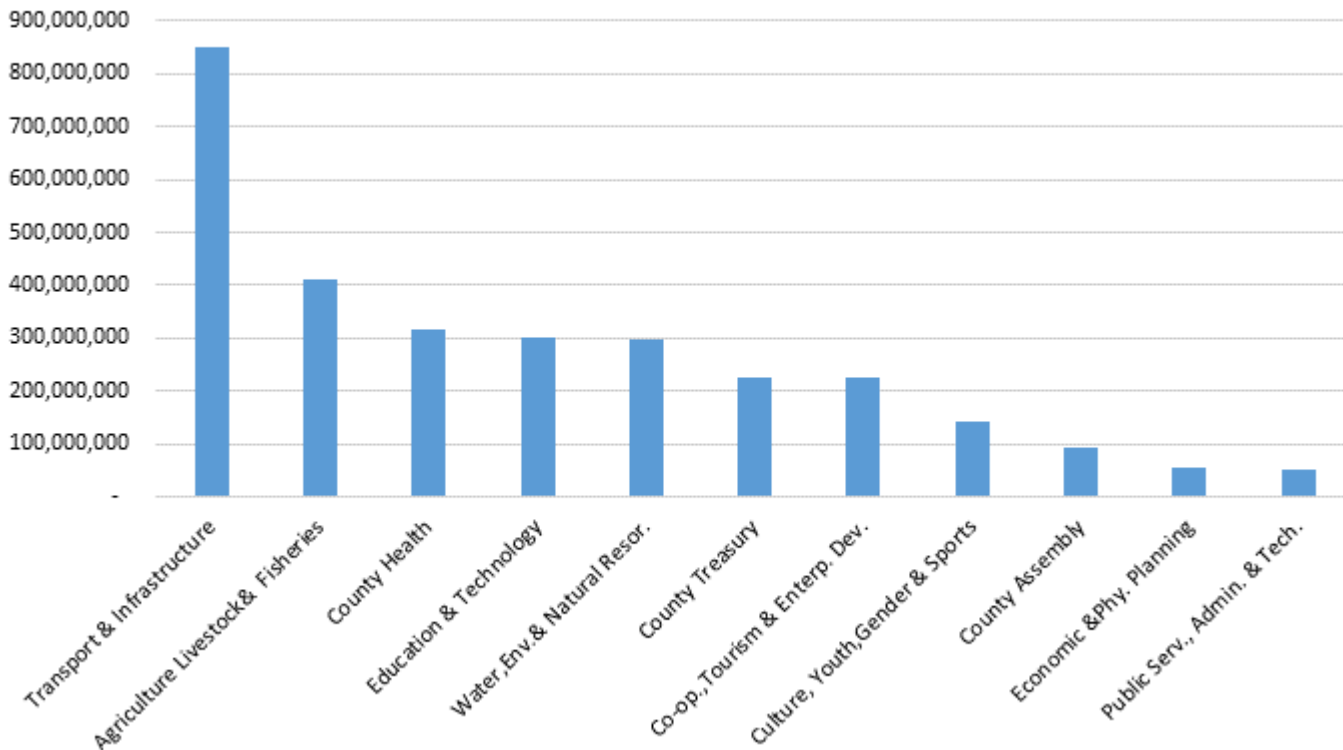


Administrative departments take up the three highest recurrent expenditure allocations, the County Treasury has the an allocation of Ksh 799 million with 58 percent of these being salaries and allowances, the second highest is the County Assembly with 718 million, and third is the Office of the Governor at Ksh 283 million. About 46 percent of the total recurrent costs are for salaries and allowances.



The total development expenditure estimates for Meru stands at Ksh 3 billion (inclusive of debt repayment). The Transport and Infrastructure Department has the highest allocation at Ksh 849 million followed by the agriculture sector with an allocation of Ksh 411 million. The health sector is third, with a total of Ksh 317 million for development.

Development Budget



3. DOES THE BUDGET HAVE THE SAME PRIORITIES AS MY COUNTY'S DEVELOPMENT PLAN?

Again, this is a difficult question to answer in the first year, because not all counties have a plan yet. But they will be approving plans this financial year (and many have done so already), and these must be an input into the budget for next year. The law requires that the budget be based on the plan, and therefore, the priorities in the plan should be the same as the priorities in the budget. This means that if the plan focuses spending on health, agriculture and water, the budget should do the same.

Even if the sequence of plan and budget is improper in this year, there is still no reason why the priorities should not be similar between the two documents.

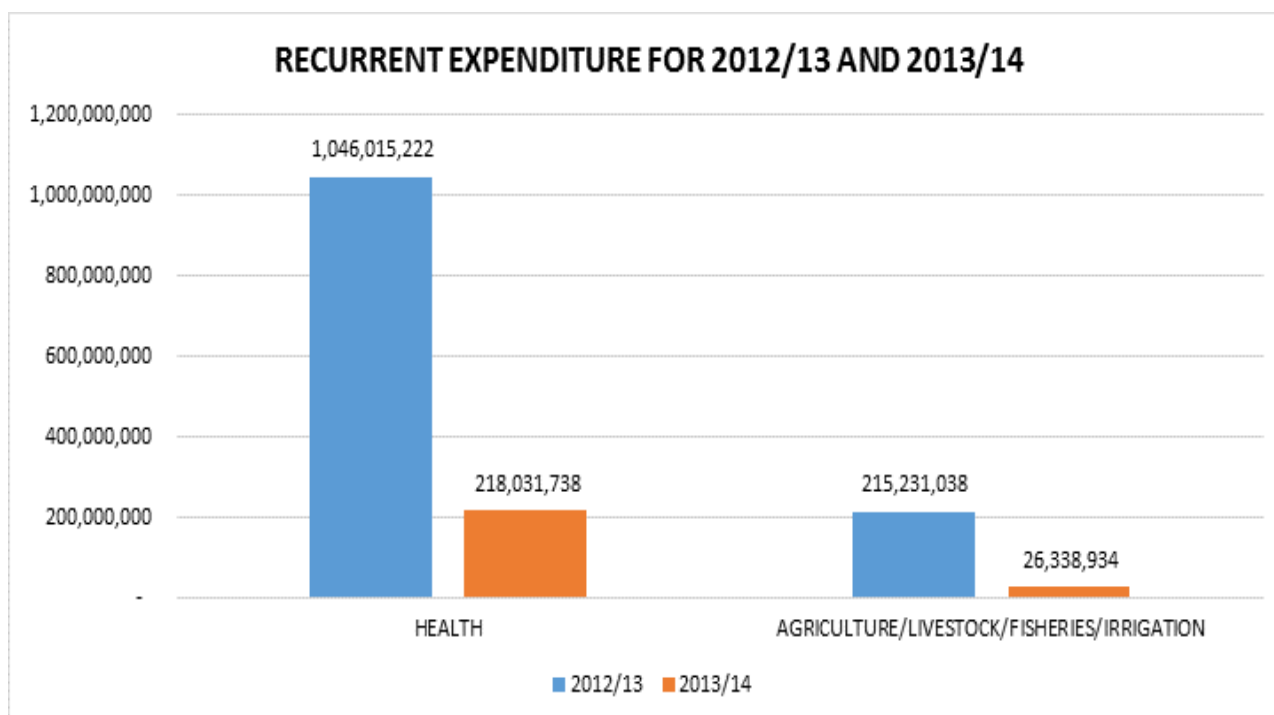
The County Integrated development is not available for this analysis.

4. IS THERE ENOUGH MONEY IN MY BUDGET TO MAINTAIN THE CURRENT LEVEL OF BASIC SERVICES LIKE HEALTH?

In order to know the answer to this question, one has to look at how much it cost to deliver services last year. Since counties did not exist, this requires one to look at estimates of how much was spent by national government on devolved services last year. This is the baseline for what should be spent this year to maintain services. To view some of this Treasury data, refer to Budget Brief 19, "County Budgets: How do we know if there is enough to maintain key services," on the IBP website, <http://internationalbudget.org/wp-content/uploads/brief19.pdf>. The full underlying data is also available at www.internationalbudget.org/kenya below the link for Budget Brief 19.

Here we evaluate how much the county has allocated for running costs in 2013/14 for two key devolved sectors: Health and agriculture and compare to what the National Government spent for the same devolved functions in 2012/13. For both sectors we see huge drops in running costs between the two years. The health sector allocation have dropped from Ksh 1.05 billion to Ksh 218 million; while in agriculture the allocation between the two years dropped from Ksh 215 million to Ksh 26 million. It's possible that the huge drop is due to salaries allocation which is under the County Treasury. However, from the Treasury salaries allocation we are not

able to tell how much is for health workers or extension officers in agriculture. However, even if all the allocation for salaries and allowances under Treasury (Ksh 461) was allocated for health it would not get fill the gap between the current allocation and what was spent in 2012/13.



5. DOES MY BUDGET TELL ME WHERE (THAT IS, IN WHICH WARD OR CONSTITUENCY) DEVELOPMENT PROJECTS WILL BE LOCATED?

In order to assess the degree to which the budget is allocating resources equitably, we want to know where buildings and infrastructure will be located. This requires that spending information be broken down below the county level (to sub-county or ward). Generally, this information should be included in the part of the budget that details development (capital) expenditure.

The Meru budget does not give the location of many of its development projects. The example below is for the Education department which has allocated money to build pre-primary classrooms but no details of what location or wards these classes will be built.

MERU COUNTY GOVERNMENT		
2013/2014 BUDGET		
DEPARTMENT	F/Y	F/Y
EDUCATION AND TECHNOLOGY	2013-2014	2013-2014
EXPENDITURE		REVISED
CAPITAL EXPENDITURES & INVESTMENTS		
Establish a county Talent School	10,000,000.00	-
Construct pre-pry classrooms	54,000,000.00	54,000,000.00
Curriculum Diversity	6,500,000.00	3,000,000.00
Develop polytechnic	10,000,000.00	10,000,000.00
Child care facilities at subcounty for destitute children	18,000,000.00	10,000,000.00
Education improvement and support within the wards (KSH 5M PER	225,000,000.00	225,000,000.00
TOTAL CAPITAL EXPENDITURES & INVESTMENTS	323,500,000.00	302,000,000.00

However, there are instances where the location of the projects is given for example in the Cooperative department. The highlighted shows some development projects with details that give an idea of where they will be implemented.

CAPITAL EXPENDITURES AND INVESTMENTS		
Purchase of vehicles	10,000,000.00	-
Branding of meru county	5,000,000.00	-
Equiping of collection centres	10,000,000.00	10,000,000.00
Establishment of an SMES bank	70,000,000.00	50,000,000.00
Establish WARD and sub county industrial development centres	115,000,000.00	50,000,000.00
Equiping, fencing and power installation of CIDCS	35,000,000.00	20,000,000.00
Establishment of county union of savings and credit co-op organisati	25,000,000.00	-
Construction of one industrial SMES park	50,000,000.00	-
Establishment of a market	100,000,000.00	50,000,000.00
Establishment of an industrial zone near Isiolo	70,000,000.00	20,000,000.00
Rehabilitation of Meru County Hotel	-	5,000,000.00
Establishment of Nyambene Concerancy	-	10,000,000.00
establish amount kenya tourist circuit		10,000,000.00
	490,000,000.00	225,000,000.00

6. DOES MY BUDGET HAVE A DEFICIT AND HOW WILL IT BE PAID FOR?

Many counties have deficits. A deficit has to be financed somehow, and this almost always means taking a loan. But loans are not permitted without national sign-off, which is unlikely at this time. Given this, it is also important to know what will be cut from the budget if the deficit cannot be financed.

In the first year, the Controller of Budget has been clear that deficits are not allowed. In subsequent years, counties will need to seek permission to borrow. There should be evidence in the budget that borrowing has been allowed if a county is presenting a deficit.

Meru has a balanced budget for the year 2013/14 with the expenditure being equal to the projected revenue. However, a point to note is that there is a revenue stream marked "Supplementary" and it's not clear the source for they are not marked as either national transfers or local revenue.

7. HOW MUCH MONEY DOES MY COUNTY SAY IT WILL RAISE FROM ITS OWN TAXES AND FEES AND IS THAT REASONABLE?

Counties mostly receive money from national transfers and from their own taxes and fees. Many counties have estimated very high revenues from their own sources. To know if these are reasonable, one could compare them to what local authorities were able to raise from similar sources. The Parliamentary Budget Office has estimated this for 2010/11. You can compare your county estimates to these to get a sense of what is reasonable. This data is contained in the 2012/13 PBO report.¹ We now also have some data from the Controller of Budget that tells us how much counties have actually been able to raise during their first four months.² By multiplying these figures by three, you can estimate how much a county would raise in a year. We carried out this analysis and compared the PBO and COB figures in the table below.

Meru County local revenue projections stand at Ksh 658 million for the year 2013/14. According to the implementation report from the Controller of Budget the county was able to collect Ksh 107 million during the first half of the year. Extrapolating this for the full year, the county might only collect Ksh 214 million which leaves a huge funding gap of Ksh 444 million. This could be an implicit deficit that the county might have to factor into their budget for the year 2013/14 if local revenue collection remains this low.

¹ Republic of Kenya, The Parliamentary Budget Office, "MPs Budget Watch Financial Year 2012/13." Available at <http://www.parliament.go.ke>. Accessed 25 September 2012.

² Office of the Controller of Budget, "County Budget Implementation Review Report: Fourth Quarter FY 2012/13." Available at <http://www.cob.go.ke/>. Accessed on 26 November 2013.

However, from the cash flow projections in the budget the county planned to collect 38 percent of the revenue in the first half of the year and the rest in the last six months. Using this proportion then the target for local revenue would be around Ksh 382 million for the first half and with a collection of Ksh 108 million then the shortfall would be 274 million.

MERU COUNTY BUDGET		
REVISED BUDGET SUMMARY		
DEPARTMENT	CENTRAL TRSF	LOCAL SOURCES
County Assembly	-	-
Office of the Governor		
County Treasury	4,749,000,000.00	658,000,000.00

8. HOW MUCH MONEY DOES MY COUNTY EXPECT TO GET FROM NATIONAL GOVERNMENT?

The correct number for the national transfer to each county is in the County Allocation of Revenue Act (CARA) 2013 and can be compared to what a county has proposed. The CARA 2013, Annex 3, contains information on the equitable share (the amount that goes through the formula as an unconditional grant) and additional conditional grants that counties received for regional hospitals (provincial and high volume hospitals), donor-financed projects, and the Equalisation Fund. This information is available at <http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/CountyAllocationofRevenueActNo34of2013.pdf>.

As shown in the table above (see Question 7), the county expects to get Ksh 4.8 billion in national transfers. However, the figure in the budget is about Ksh 11 million lower than what is allocated in the County Allocation of Revenue Act, 2013 as equitable share. It's not clear why this difference exists. This does not include Ksh 758 million in conditional grants to the county.

Just like in many other counties, Meru is getting transfers in the form of equitable allocation as well as conditional grants. In particular, Meru is one of the 11 counties getting an allocation for the Meru L5 hospital. This aspect is reflected in the Health department budget but no allocation is provided in the revised figures which is not clear why considering that this is a conditional grant.

MERU COUNTY GOVERNMENT		
2013/2014 BUDGET		
DEPARTMENT	F/Y	F/Y
COUNTY HEALTH	2013-2014	2013-2014
EXPENDITURE		REVISED
CONDITIONAL FUNDING		
Government support to level 5 facilities	183,000,000.00	-
TOTAL CAPITAL EXPENDITURES & INVESTMENTS	183,000,000.00	-

9. DOES MY BUDGET SPEND MONEY ON THINGS THAT COUNTIES ARE RESPONSIBLE FOR RATHER THAN THINGS THE NATIONAL GOVERNMENT IS RESPONSIBLE FOR?

Citizens can consult the Fourth Schedule of the Constitution to determine which functions counties are responsible for, and which national government is responsible for, then see if the county budget is aligned with county functions. Further detail on the functions described in the Fourth Schedule are available in a Gazette Notice issued by the Transition Authority on 9 August 2013.³

Many of the items in the budget do seem to be aligned to county functions as assigned in Schedule four of the constitution. However, there are some budget lines that seem to be allocating resources for national functions. For example, the county has made an allocation of Ksh 10 million for a special school. Special schools are under functions assigned to the National Government in the constitution. The county has allocated Ksh 400 million for road construction is this only for county roads or projects to be funded by state corporations such as Kenha?

<u>DEPARTMENT</u>	<u>F/Y</u>	<u>F/Y</u>
<u>EDUCATION AND TECHNOLOGY</u>	<u>2013-2014</u>	<u>2013-2014</u>
<u>EXPENDITURE</u>		REVISED
<u>PERSONELL</u>		
Travel and Overnight Allowances	6,000,000.00	3,000,000.00
Vehicle Insurance Policies	500,000.00	500,000.00
Functions & Celebrations	2,400,000.00	2,000,000.00
Special School Grants(e.g. Physically impaired)	10,000,000.00	10,000,000.00
<u>TOTAL OPERATIONS</u>	<u>18,900,000.00</u>	<u>15,500,000.00</u>
<u>MAINTENANCE</u>		
Building and Structure Maintenance & Repair	1,000,000.00	1,000,000.00

10. DOES IT SPEND MONEY ON ALL OF THE THINGS THAT COUNTIES ARE RESPONSIBLE FOR, OR ARE THERE KEY AREAS MISSING?

In reviewing some budgets, we find that things like housing are completely missing. This is a core county function, so it is surprising to find it missing. This question can be answered by looking at the Fourth Schedule, but also by looking within each sector and comparing the activities to those that a sector specialist (in health, housing, etc.) would identify as key areas of spending. This can be supplemented by looking at activities contained in the sector report (MTEF) and the 2012/13 budget at national level. In many cases, however, the lack of programme budgeting and the use of only line items in the county budgets makes it very difficult to tell what functions are being taken up under each county department/ministry.

The budget does cover most of the functions that counties were assigned in the constitution, but it's not clear whether the county has budgeted for housing, while there are different allocations for buildings (e.g. under health), the aspect of improving housing as a policy item funded by the budget seems to be missing. It's also not possible to tell from the salary information provided whether the county has allocated money for ECD teachers and agricultural extension officers.

11. DOES MY BUDGET HAVE AN EMERGENCY FUND IN CASE OF ANY DISASTER?

All counties can (and should) have a County Emergency Fund in their budget to provide for disasters. As per the Public Finance Management Act, this can spend up to 2 percent of the county revenues in a single year.

The county has not allocated any funding for the Emergency Fund. The budget approved in June had allocated Ksh 15 million for a disaster fund which was taken out when the budget was revised.

³ Kenya Gazette Supplement No. 116, Legal Notice 137, "The Constitution of Kenya, The Transition to Devolved Government Act, 2012 (No. 1 of 2012), Transfer of Functions."

MERU COUNTY GOVERNMENT		
2013/2014 BUDGET		
DEPARTMENT	F/Y	F/Y
OFFICE OF THE GOVERNOR	2013-2014	2013-2014
EXPENDITURE	BUDGET	REVISED
Donation Fund Contribution	1,000,000.00	-
Purchase of 5 motor vehicles	-	30,000,000.00
Disaster Management Fund	15,000,000.00	-
School appraisals Awards (eg KCPE)	1,000,000.00	1,000,000.00

12. DOES THE BUDGET PROPERLY DISTINGUISH BETWEEN RECURRENT AND DEVELOPMENT EXPENDITURE?

In some budgets, we find that these expenditures are misclassified, which also leads to an incorrect assessment of the share of the budget that is for development. The PFM Act 2012 requires at least 30 percent of development spending over the medium term (3-5 years). Some budgets classify medicines as development spending (when they should be recurrent) and assets like equipment as recurrent spending (when they are capital/development). We also noticed variations of classification within a single budget, but across departments (e.g., equipment classified as recurrent in some departments, and development in other departments).

The budget separates the recurrent expenditure and the development expenditure. Both budget types give a breakdown of items funded under each. However, it is not clear that everything labeled as development is in fact development. Under agriculture, for example, there are various things like “livestock management”, “crops, management,” and “value addition” that may not be capital. Education has something called “curriculum diversity” which may also not be capital in nature. There are also purchases of office furniture and office computers that may not be considered capital, especially if they are not expected to last for 5 years or longer.

13. DOES THE BUDGET CONTAIN UNIT COSTS FOR VARIOUS PURCHASES (SUCH AS VEHICLES, GENERATORS AND OTHER ASSETS) AND ARE THESE CONSISTENT ACROSS DEPARTMENTS?

Not all of the budgets contain unit costs. Good practice is to give an indication of the number of units (say, vehicles) and the total cost, along with a unit cost to know how much each asset is estimated to cost. This allows comparison with market rates and with other parts of the budget. In our review of some budgets, unit costs are missing and there is some evidence that they differ across departments within a single budget.

The Meru County budget gives a mixed picture when it comes to units of purchase and the costs. In a few cases the units are provided, though no costs are given for each of the units, as shown in the example below. However, in most cases no details are given on units.

	1,100,000.00	1,100,000.00
CAPITAL EXPENDITURES AND INVESTMENTS		
Preparation of master plan/strategic plan	30,000,000.00	10,000,000.00
Survey and planning of Turingwi A & B	10,000,000.00	5,000,000.00
Establish a county data management system	5,000,000.00	5,000,000.00
purchase of motor of vehicles(3)	10,000,000.00	10,000,000.00
land adjudication	27,000,000.00	27,000,000.00
	82,000,000.00	57,000,000.00

14. ARE THE BUDGET LINES SUFFICIENTLY CLEAR TO KNOW WHAT EACH OF THEM REFERS TO, AND ARE THEY CONSISTENT ACROSS DEPARTMENTS?

Proper budgeting requires a consistent set of codes and budget lines that are easy to interpret. Where they are not, narrative explanation should be provided. One can look at this issue broadly but also within specific sectors.

There is a good enough level of detail to tell what the items funded are, but in some cases the level of detail given is not sufficient to carry out effective monitoring of the budget. For example, in the Transport department there are some purchase items that one cannot tell what they are, e.g. "Purchase of 1 D8" and "Purchase of 1 D9." A number of development items are unclear: In agriculture, "bee farming" is mentioned. But what exactly is being purchased? Treasury has 84 million for "ongoing projects." Environment has "environmental conservation." Others include lines such as "Establish a county communication e.g. Radio and TV. Stations" which is allocated Ksh 50 million. This is confusing, is the county planning to start a radio in 2013/14 or a TV station, or both?

Purchase of a Backhoe Excavator	20,000,000.00	10,000,000.00
purchase of (2) 14 tons lorries	20,000,000.00	-
purchase of a Tractor and a Self tipping tons trailer	11,000,000.00	5,500,000.00
purchase 4 graders	92,000,000.00	92,000,000.00
Purchase of 1 D8	25,000,000.00	-
Purchase of 1 D9	35,000,000.00	35,000,000.00
Office renovations	3,578,349.00	-
Electricity extentions in our rural areas	50,000,000.00	20,000,000.00

15. DOES THE BUDGET CONTAIN ESTIMATES FOR THE COMING THREE YEARS OR ONLY FOR THIS YEAR?

Some budgets seem to contain only a single year of estimates, whereas the PFM Act 2012 encourages budgeting in a medium term framework (the coming year, plus at least two additional years). The PFM Act requires three years of revenue estimates at least, but good practice is to provide three years of expenditure estimates as well, for both recurrent and development spending. Development spending is particularly important because it generally commits the budget for future years and reduces choices in those years. Multi-year projects should be discussed as multi-year projects, not single year budget items, if they will constrain budget choices in future years.

The 2013/14 Meru budget has expenditure and revenue estimates for just the current year as shown below.

MERU COUNTY GOVERNMENT		
2013/2014 BUDGET	F/Y	F/Y
DEPARTMENT	2013-2014	2013-2014
WATER , ENV AND NATURAL RESOURCES		REVISED
EXPENDITURE		
PERSONELL		
Basic salaries	7,036,560.00	7,218,060.00
House allowance	2,016,000.00	2,016,000.00
Leave allowance	131,639.00	131,639.00
Commuter allowances	360,000.00	360,000.00
Laprofund	578,376.00	578,376.00
Gratuity	1,402,663.00	1,402,663.00
Staff training contribution	2,000,000.00	2,000,000.00
	13,525,238.00	13,706,738.00

16. DOES THE BUDGET CONTAIN ANY FUNDS FOR CIVIC EDUCATION, OR TO FACILITATE PUBLIC PARTICIPATION IN COUNTY DECISION-MAKING?

The Fourth Schedule of the Constitution assigns to counties the role of ensuring community participation in governance. The County Governments Act requires counties to encourage public participation in a number of ways. These include, among others: meetings where plans, budgets and government performance can be discussed, opportunities to give inputs on development projects, citizen commissions in various sectors, and a variety of information dissemination platforms (e.g., through notice boards). Since these activities are not free, the county should budget for them in some way and this should be clearly indicated.

The County Assembly has an allocation of Ksh 4 million for public participation.

Computers & Accessories	2,700,000.00	3,690,000.00
Kicosca expenses	6,000,000.00	6,000,000.00
Performance management	5,000,000.00	1,000,000.00
Public Participation	10,000,000.00	4,000,000.00
Strategic Plan	5,000,000.00	3,000,000.00
Telephone, Telex & Mobile -CASB	500,000.00	500,000.00